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Economic Intelligence Weekly

AIW 75-01-08

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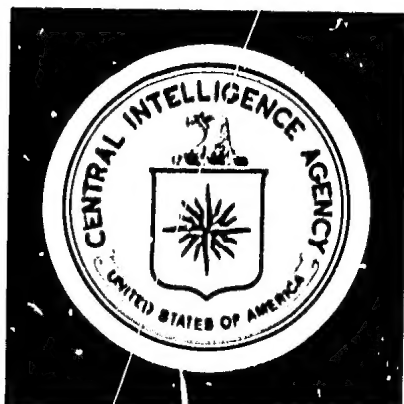
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No Foreign Dissem



Economic Intelligence Weekly

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January 8, 1975

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ECONOMIC INTELLIGENCE WEEKLY

8 January 1975

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Overview

The price of Gold has fallen sharply as US demand failed to meet foreign expectations. Gold slumped to \$169.50 yesterday -- down \$25.75 from Monday, 30 December. In December, traders estimated that anticipated US demand had added \$30 to the price.

25X6



On the world Commodity Markets, Prices of Industrial Raw Materials continue to fall, having plunged 40% since April. Industrial fibers dropped more than 35% and metals more than 25% for the full year 1974. In contrast, world food prices rose almost one-third, led by the sharp increase in sugar prices. Petroleum prices quadrupled since the October 1973 war. (Confidential No Foreign Dissem)

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US INDIFFERENCE TO GOLD CAUSES PRICE BREAK

The gold price declined sharply last week as the level of US demand fell short of market expectations. In London, the price declined from \$195.25 on 30 December to \$169.50 on 7 January. The lack of demand at Monday's Treasury auction - only 740,000 ounces were sold at prices as low as \$153 - confirmed the feeling that traders had overestimated the US market's potential, at least in the short run.

Major gold producers have not yet reacted to the sharp price decline. South Africa and the Soviet Union could restrain supply sufficiently to counter any further weakening in price. Pretoria has left open its option to reduce sales but will probably sell enough gold to cover foreign exchange needs. The USSR can afford to cut sales in 1975 and is likely to do so should the market weaken further.

US buyer intentions and Treasury policy have been the dominant factors in the market since mid-1974. Predictions by European dealers starting last summer that the gold price would hit \$200 an ounce even before US citizens entered the market had helped drive up prices by more than \$40 from mid-October to 30 December. Treasury's announcement in early December that it would sell up to 2 million ounces, about one to two weeks' supply on European markets, caused only a temporary drop in price.



The price of gold in 1975 will hinge on a number of factors including the market's perception of US intentions, the results of upcoming IMF discussions on gold, and possible changes in other countries' policies on gold. (Confidential No Foreign Dissem)■

* * * *

INDEXING FOR INFLATION

Indexing -- the automatic adjustment of wages, loans, and taxes to compensate for inflation -- is an increasingly popular political response to problems stemming from spiraling prices. It has proved most valuable in minimizing the redistribution of income that normally accompanies inflation. While making inflation easier to live with, indexing can speed up the inflationary process.

Use of Indexing

Index adjustments in wages and pensions usually are triggered only after a lag and often do not compensate fully for price changes. For financial instruments such as bonds or savings accounts, both the interest payments and the principal usually are adjusted retroactively to reflect inflation. Tax rates have been adjusted in certain countries by linking the value of personal exemptions and/or the definition of tax brackets to price indexes.

Indexing is not new. For example, it was used as early as 1742 in the Massachusetts Bay Colony to preserve the real value of government bonds. Most West European countries began using indexing since the late 1940s. Canada has recently expanded its program, and Australia and the United Kingdom are moving to implement or broaden indexing programs. Brazil and Israel now make the most extensive use of indexing.

Among industrial countries, escalator clauses in wage contracts are the most widely used form of indexing. In the United States, nearly 4 million workers in the private sector are covered by wage escalators. In addition, US social security payments were brought under the system last year. At least some wages or pensions are indexed in 13 other countries. A number of LDCs -- especially Latin American countries -- have indexed financial instruments with an eye to encourage private investment.

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CPYRGHT

Use of Indexing in Selected Countries¹

	Wages	Social Security	Bonds/Loans	Mortgages/Rents	Taxes
North America					
United States	1917 - present	1974 - present	1742, 1925	....	....
Canada	1972 - present	1965 - present	....	....	1974 - present
Latin America					
Argentina	....	....	1972 - present	....	....
Brazil	1964 - present	....	1964 - present	1964	1964 - present
Chile	1960-69	1952 - present	....	....	....
Colombia	....	....	....	1972 - present	....
Uruguay	....	....	....	1971 - present	....
Western Europe					
Belgium	1948 - present	1955 - present	....	....	....
Denmark	1945 - present	1923 - present	....	....	....
Finland	1945-67	1957 - present	1952-67	1952-67	....
France	1948-68	1948 - present	1952-58	....	....
West Germany	....	....	1920s	....	....
Italy	1945 - present	1950 - present	....	....	....
Netherlands	1965 - present	1956 - present	....	....	1972 - present
Norway	1920 - present	1967 - present	....	....	....
United Kingdom	1915-22; 1973-74	....	1973 - present ²	....	....
Other					
Australia	1921-53 ²	....	....	....	....
Iceland	1971 - present	1960 - present	1955	....	1971 - present
Israel	1949 - present	....	1948 - present	1950 - present	....
China	1949-51	....	1949-51	....	....
New Zealand	....	1974 - present	....	....	....

1. Entries do not necessarily indicate comprehensive indexing in the respective categories. Source: Derived almost entirely from S.A.B. Page and S. Trollope, "An International Survey of Indexing and Effects," *National Institute Economic Review*, November 1974, pp. 46-59, Unclassified.

2. Legislation now pending.

Pros and Cons

Proponents of indexing claim that

- adjustment of salaries, pensions, and taxes is socially desirable because it protects the real incomes of groups with little bargaining power in the market place or the political arena;
- adjustment of the value and earning power of financial instruments promotes economic growth by maintaining incentives to save and invest;
- indexing tends to moderate inflation, since people feel less need to make extreme financial demands in anticipation of continuing price hikes; and

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- indexing can contribute to a better allocation of resources -- for example, by maintaining the real return on investment.

Critics assert that

- indexing contributes to inflation by raising wage costs and by adding to aggregate monetary demand,
- weakens public support for anti-inflation policies by taking the sting out of inflation, and
- distorts the allocation of resources unless applied throughout an economy in a uniform manner -- a difficult task, at best.

Assessment

Although spreading, indexing remains a minor policy tool in most countries -- mainly because of uncertainties concerning its impact. Many observers are convinced that wage indexing has intensified inflation, not just made it more tolerable. Finland banned wage indexing in 1967 after 22 years of experience. Norway is moving to end the practice, and the Netherlands is reconsidering its program.

Indexing of pensions is strongly supported on the grounds of social equity. No country that has introduced it seems to have any doubts about the need to protect citizens with low, fixed incomes.

Indexing of financial instruments has helped to revive confidence among private investors in at least a few LDCs. Brazil's rapid economic growth over the past decade is partly the result of indexing measures that stimulated saving and investment. The same is true of Israel, where capital was fleeing the country prior to indexing. In Colombia, however, indexing of mortgage obligations has led to overinvestment in housing, depriving competing sectors of capital.

Indexing of income taxes has been of little benefit to consumers. Except for Canada, which introduced the measure in late 1974, these adjustments have been largely offset by increases in indirect taxes to compensate for lost revenues. (Unclassified) ■

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CHINA: A SO-SO 1974 HARVEST

The Chinese grain harvest for 1974 was little if any higher than the almost 250 million tons harvested in 1973.

Peking, obviously disappointed, now characterizes the harvest as "an all around good harvest." In its yearend pronouncement, the government did not repeat its 22 December statement that "total grain output shows a fairly big increase over 1973, itself a good year, to set a new record." Foreign grain suppliers, who this past fall had been asked to postpone deliveries, now are being urged to speed up shipments.

Growing Conditions

Crops got off to a poor start in 1974. The winter wheat crop was hurt by drought during the growing season and by wind and rainfall at the time of harvest. As a result, output failed to measure up to past years despite the record acreage planted. Early rice was set back by frost but recovered in time to yield a good crop.

The more important fall harvest -- about two-thirds of China's annual grain output -- was unusually late. Growing conditions, however, were generally favorable until late in the growing season. Then drought, heavy rain, and insects over extensive areas of south and central China and prolonged rainfall in north China damaged crops before they could be harvested. For example, the late crop was poor in Kwangtung Province, a major producer of rice in the south, and in Shantung Province, a major producer of corn in the north.

Foreign Supplies

This past fall, Peking asked all of its major suppliers to postpone delivery of almost 2 million tons of grain from the fourth quarter of 1974 to the second half of 1975. Because of the favorable prospects for the fall harvest at that time, Peking apparently believed these shipments could be delayed in order to ease its tight foreign exchange position. Peking has now reversed itself and is once again seeking immediate deliveries of grain. For example, Peking has requested that Canada accelerate the delivery of 457,000 tons of wheat during the first quarter of 1975, opened letters of credit to cover an additional 290,000 tons of grain from Argentina, and refused the request of a US trader to postpone the delivery of 100,000 tons of wheat from the first to the third quarter of 1975. (Secret No Foreign Dissem) ■

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Note

Downturn in Nitrogen Fertilizer Prices

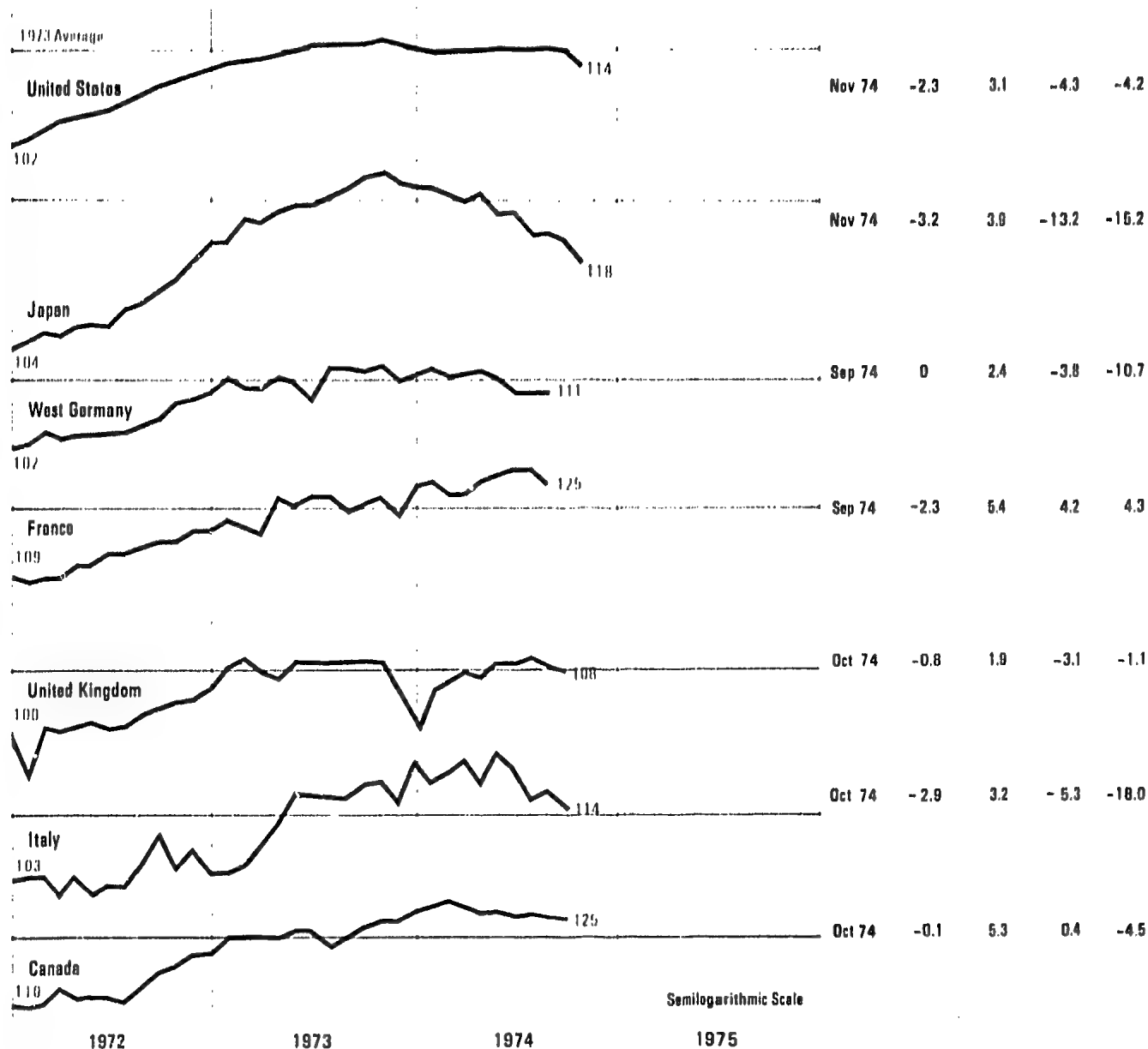
Nitrogen fertilizer prices, already down 10% since mid-1974, probably will continue to decline throughout 1975. Although not yet publicly announced, Japan, the largest exporter of nitrogen fertilizer, has set its new export price for urea 30% below current market prices. Arab and West European sellers, who had been coordinating their prices with the Japanese on the upswing, almost certainly will follow suit, at least part way, on the downswing. The weakening of nitrogen fertilizer prices is mainly the result of a retreat from the artificially high prices induced by the severe shortages of 1973/74. Supply and demand relationships have markedly changed in the past six months because of worldwide recession and the continued commissioning of new fertilizer capacity. In 1975, physical output should increase even more than the 8% gain posted in 1974. (Secret No Foreign Dissem)

INDUSTRIAL PRODUCTION

INDEX: 1970 Monthly Average=100

Average Annual Growth Rate Since

Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier 2
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**GNP**

Constant Market Prices

Average Annual Growth Rate Since

	Latest Quarter	Percent Change from Previous Quarter	1970	1 Year Earlier	Previous Quarter
United States	74 III	-0.5	3.2	-2.2	-2.1
Japan	74 III	-0.2	5.3	-3.9	-0.8
West Germany	74 II	-0.7	3.1	1.1	-2.9
France	74 II	0.1	5.4	3.8	0.2
United Kingdom	74 III	1.0	2.7	0.6	4.2
Italy	73 IV	1.9	3.7	5.3	7.7
Canada	74 III	0	5.3	4.1	0

RETAIL SALES

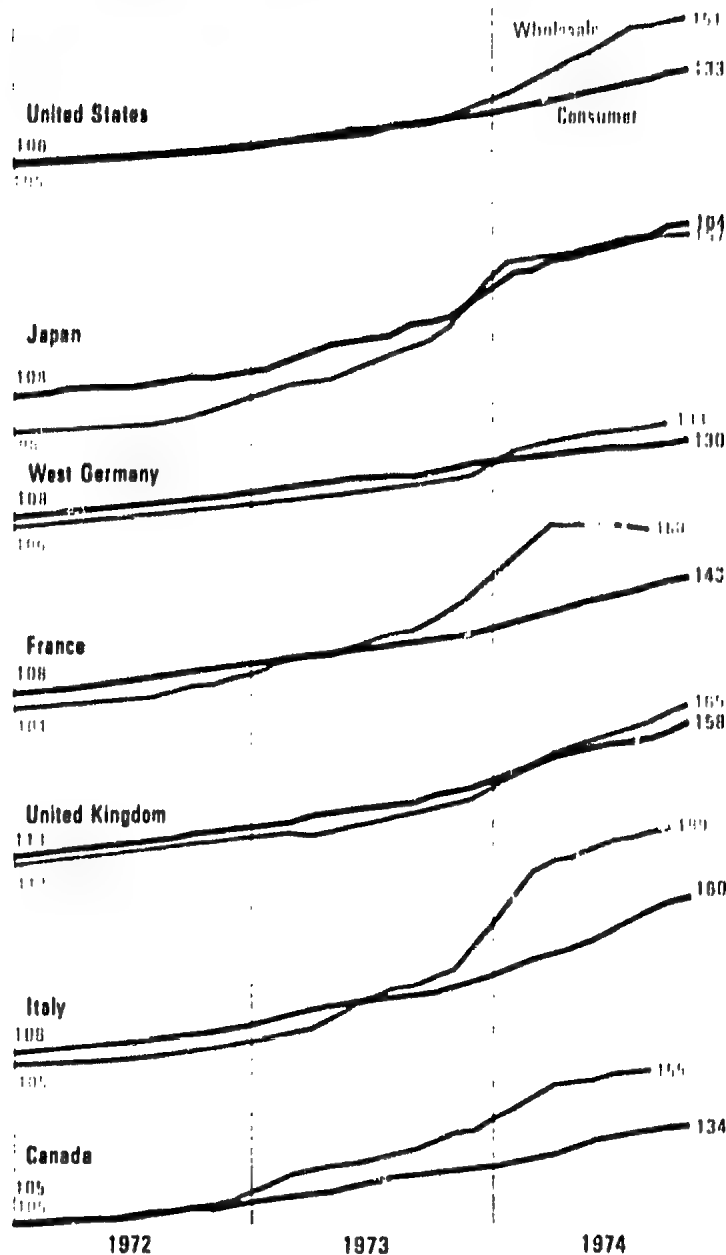
Constant Prices

Average Annual Growth Rate Since

	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier 2
United States	Nov 74	-2.2	1.8	-8.7	-13.8
Japan	Aug 74	0.1	1.0	-10.3	6.0
West Germany	Aug 74	-3.6	1.9	-2.7	-8.1
France	Sep 74	10.6	0.9	7.2	-1.3
United Kingdom	Nov 74	0.4	2.8	-0.1	8.5
Italy	Jul 74	3.9	7.2	10.1	-13.5
Canada	Sep 74	-3.7	4.5	3.4	5.6

DOMESTIC PRICES³

INDEX 1970 Monthly Average=100



Semilogarithmic Scale

Average Annual Growth Rate Since

Latest Month	Percent Change From Previous Month		Average Annual Growth Rate Since		
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier
Nov 74	0.6	0.6	9.8	27.1	10.0
Nov 74	0.8	0.7	12.1	12.1	12.3
Nov 74	0.1	0.1	10.9	25.1	11.6
Nov 74	0.7	0.7	12.0	25.8	20.0
Oct 74	0.6	0.6	6.9	14.6	5.1
Nov 74	0.7	0.1	8.5	8.5	8.4
Sep 74	1.0	1.0	11.9	27.9	7.1
Nov 74	0.9	0.9	8.5	14.9	13.0
Nov 74	1.7	1.7	12.1	27.9	23.0
Nov 74	1.8	1.8	11.0	18.3	21.2
Oct 74	0.9	0.9	16.0	34.9	11.9
Nov 74	1.5	1.5	11.4	20.2	31.1
Sep 74	0.3	0.3	11.0	22.2	11.9
Nov 74	1.1	1.1	7.0	12.0	11.0

MONEY SUPPLY¹

Average Annual Growth Rate Since

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Nov 74	0.8	5.8	5.2	2.7
Japan	Sep 74	0.3	16.6	10.2	8.0
West Germany	Oct 74	-0.3	9.0	9.5	10.1
France	Sep 74	1.3	11.4	8.1	-6.0
United Kingdom	Nov 74	0.4	8.4	4.7	8.3
Italy	Jun 74	2.4	20.8	16.6	19.6
Canada	Oct 74	0	11.6	5.8	-7.0

WAGES IN MANUFACTURING^{1,4}

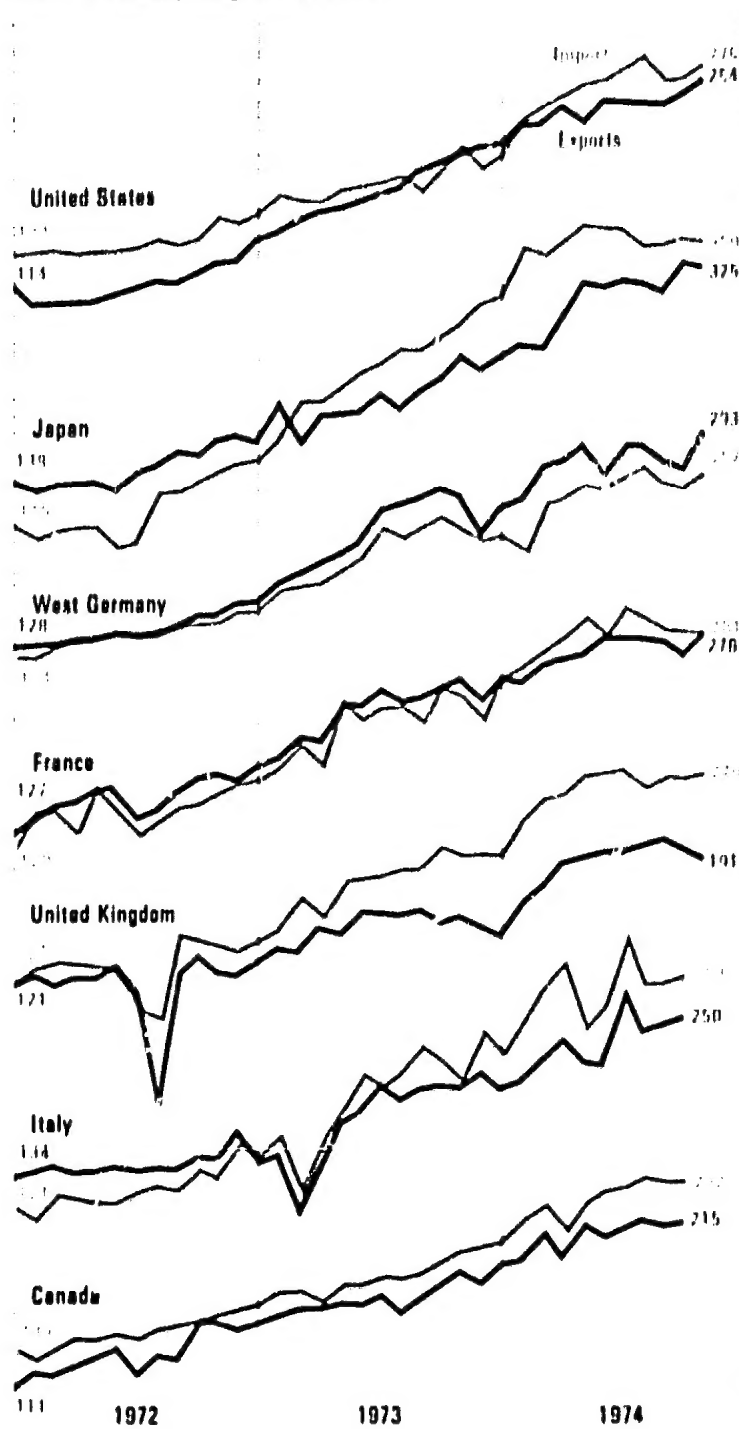
Average Annual Growth Rate Since

	Percent Change		Average Annual Growth Rate Since		
	Latest Month	From Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Oct 74	1.3	7.3	10.4	12.7
Japan	Sep 74	-2.1	21.7	33.7	34.5
West Germany	74 III	2.0	11.2	12.0	8.1
France	74 III	6.0	13.8	20.5	26.4
United Kingdom	Aug 74	6.3	14.2	16.2	33.3
Italy	Sep 74	0.1	17.6	19.4	24.0
Canada	Aug 74	1.6	10.0	15.2	16.9

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INDEX: 1970 Monthly Average=100 (f n b / f n b)



	Latest Month	Cumulative (Billion US \$)		
	Month	1974	1973	Change
United States				
Nov 74	9 060	89 300	83 881	39.8%
Balance	-113	-2,430	785	-3,225
Japan				
Nov 74	5 135	49 411	32 774	50.9%
Balance	758	1,161	3,721	-2,561
West Germany				
Nov 74	8 364	81 514	27 190	31.1%
Balance	2,482	22,089	16,173	6,916
France				
Nov 74	4 144	42 231	33 498	26.1%
Balance	-47	-3,582	1,283	-4,865
United Kingdom				
Nov 74	1 016	12 760	25 662	27.7%
Balance	-1,242	-11,244	-5,077	-6,167
Italy				
Oct 74	2 758	24 685	17 881	38.0%
Balance	-489	-6,029	-2,087	-3,941
Canada				
Oct 74	2 825	26 932	20 689	30.5%
Balance	78	815	1,748	-933

BASIC BALANCE¹

Current and Long Term Capital Transactions

	Latest Period	Cumulative (Billion US \$)			
	Month	1974	1973	Change	
United States ¹	74 III	-3,581	-4,274	-747	-4,027
Japan	Nov 74	-371	-9,004	-8,158	-848
West Germany	Oct 74	877	5,935	8,205	-2,300
France	74 II	-1,038	-2,112	-515	-1,597
United Kingdom	74 II	-1,298	-2,951	-888	-2,083
Italy	74 II	-781	-1,879	-1,209	-320
Canada	74 II	-445	-613	-8	-808

OFFICIAL RESERVES

	Latest Month	Billion US \$		
	End of Month	1974	1973	Change
United States	Nov 74	158	145	14.4
Japan	Nov 74	137	41	13.2
West Germany	Nov 74	354	88	34.1
France	Oct 74	89	44	10.1
United Kingdom	Nov 74	78	28	8.8
Italy	Oct 74	68	47	8.2
Canada	Nov 74	58	43	5.7

MONEY-MARKET RATES

	Representation Rates	Latest Date	Percent Rate of Interest		
			1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Dealer placed finance paper	Dec 11	9.00	8.25	11.65
Japan	Call money	Dec 8	12.50	9.75	13.00
West Germany	Interbank loans (3 months)	Dec 18	8.02	13.00	9.48
France	Call money	Dec 13	11.83	11.50	13.50
United Kingdom	Sterling interbank loans (3 months)	Dec 18	13.44	15.63	11.78
Canada	Finance paper	Dec 18	10.50	9.75	11.19
Eurodollars	Three month deposits	Dec 18	10.19	11.49	11.60

EXPORT PRICES

National Currency	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Oct 74	1.0	12.9	28.5	33.9
Japan	Oct 74	0.1	10.7	58.8	14.9
West Germany	Oct 74	1.7	3.0	20.8	14.7
France	Jul 74	0.1	10.8	32.1	15.6
United Kingdom	Oct 74	0.8	13.4	30.4	10.4
Italy	Jul 74	3.9	15.4	42.8	43.4
Canada	Jul 74	1.7	12.4	38.3	13.5

IMPORT PRICES

National Currency	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Oct 74	0.5	19.4	49.7	18.9
Japan	Oct 74	0.8	18.7	72.9	12.0
West Germany	Oct 74	-0.5	8.8	29.5	5.9
France	Jul 74	3.8	15.9	64.8	28.8
United Kingdom	Oct 74	1.5	21.0	46.4	16.9
Italy	Jul 74	7.4	24.8	68.5	7.3
Canada	Jul 74	1.8	11.6	32.5	39.7

EXPORT PRICES

U.S. \$	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Oct 74	1.0	12.9	28.5	33.9
Japan	Oct 74	-0.1	15.6	21.5	4.1
West Germany	Oct 74	4.4	14.9	12.4	7.8
France	Jul 74	3.6	15.3	13.2	28.6
United Kingdom	Oct 74	1.7	12.6	24.9	-0.6
Italy	Jul 74	4.8	14.6	28.6	35.7
Canada	Jul 74	0.7	14.3	41.5	9.4

EXCHANGE RATES

	Spot Rate As of 3 Jan 75				
	U.S. \$ Per Unit	Dec 66	18 Dec 71	15 Mar 72	27 Dec 74
Japan (yen)	0.0033	20.59	2.48	-12.52	0.15
West Germany (Deutsche mark)	0.4185	68.47	34.87	18.19	1.28
France (franc)	0.2728	12.23	15.08	2.81	0.85
United Kingdom (pound sterling)	2.3475	-15.88	-9.91	4.81	0.28
Italy (lira)	0.0015	-3.69	-10.35	-12.88	0.65
Canada (dollar)	1.0089	9.48	1.21	1.22	-0.18

TRADE-WEIGHTED EXCHANGE RATES*

As of 3 Jan 75

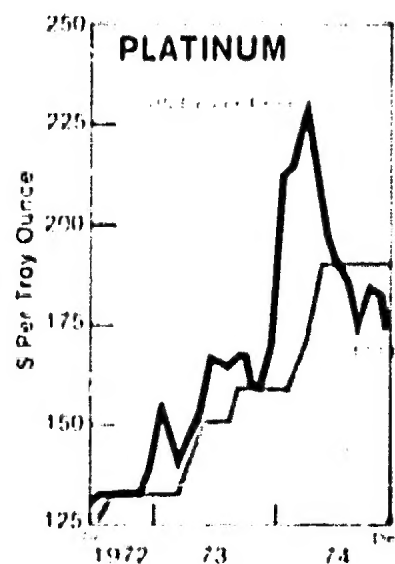
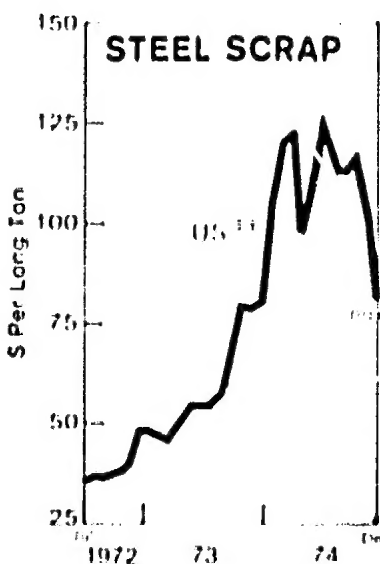
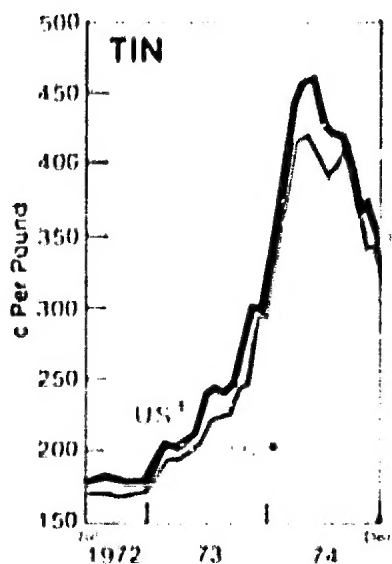
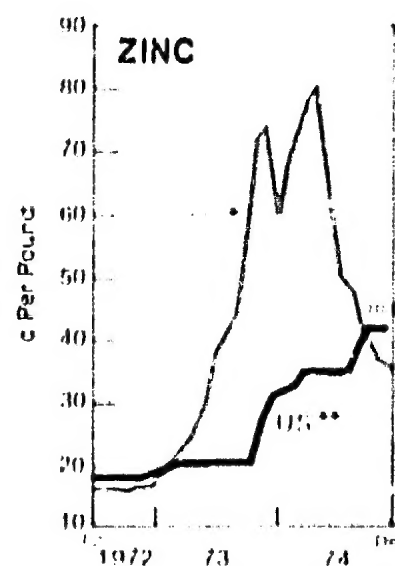
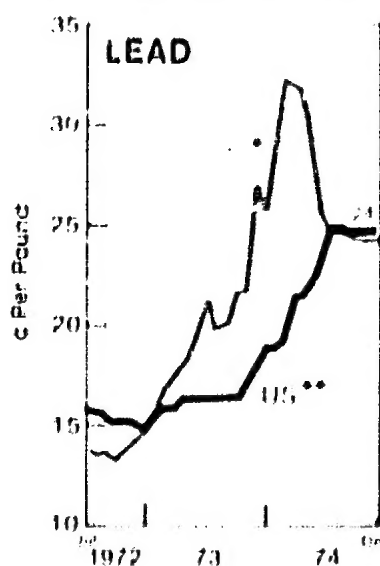
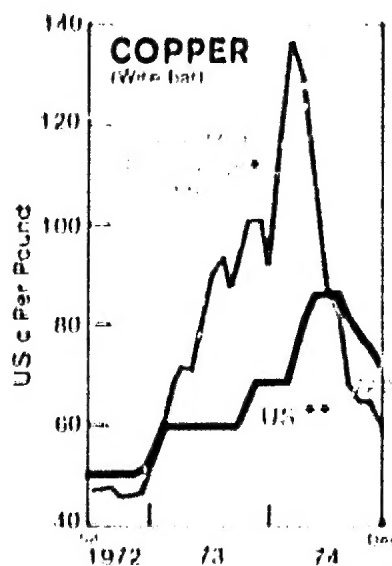
	Percent Change from			
	Dec 66	18 Dec 71	15 Mar 72	27 Dec 74
United States	-18.44	-7.07	-0.44	-0.30
Japan	10.93	-2.57	-14.38	-0.06
West Germany	34.29	17.05	11.93	0.55
France	-15.26	-1.88	-6.14	-0.03
United Kingdom	-39.20	-24.67	-10.07	-0.29
Italy	-31.28	-29.83	-22.80	-0.14
Canada	8.42	-0.15	1.51	-0.30

FOOTNOTES FOR WEEKLY INDICATORS

1. Seasonally adjusted.
2. Average for latest 3 months compared with average for previous 3 months.
3. Wholesale price indexes cover industrial goods.
4. Monthly earnings for the United States, Japan, and Canada; biweekly wage rates for others. West German and French data are for the beginning of the quarter.
5. Converted to U.S. dollars at the current market rates of exchange.
6. Weighting is based on each listed country's trade with 18 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

METAL PRICES

(Monthly Average Price)

**COMMODITIES**

Cash Prices

	6 Jan	Week End	Nov 74 Average	Dec 73 Average
Copper LME (c per pound)	54.8	58.3	64.1	101.3
Copper US (c per pound)	68.6	68.6	75.6	65.7
Lead LME (c per pound)	24.2	24.2	24.2	27.0
Lead US (c per pound)	24.5	24.5	24.5	17.7
Zinc LME (c per pound)	35.6	33.6	36.0	73.8
Zinc US (c per pound)	38.0	38.0	38.0	27.4
Tin LME (c per pound)	335.6	323.8	335.5	294.7
Tin US (c per pound)	340.8	341.0	371.0	300.5
Steel scrap (\$ per long ton)	N.A.	76.7	102.3	79.1
Platinum US dealer (\$ per troy ounce)	164.0	176.5	177.3	158.5
Platinum US producer (\$ per troy ounce)	190.0	190.0	190.0	158.0

*Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME

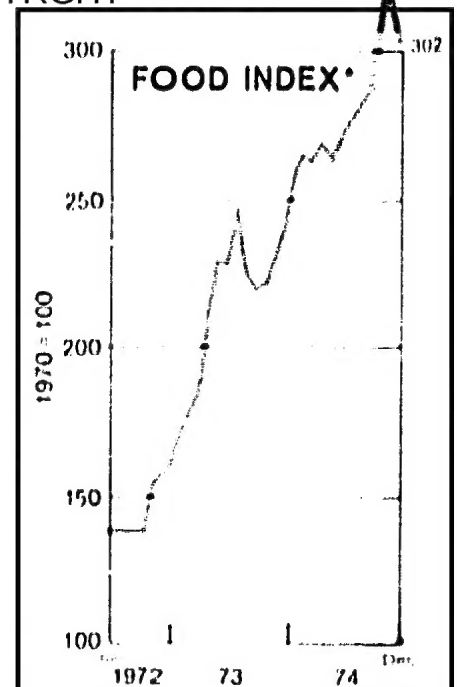
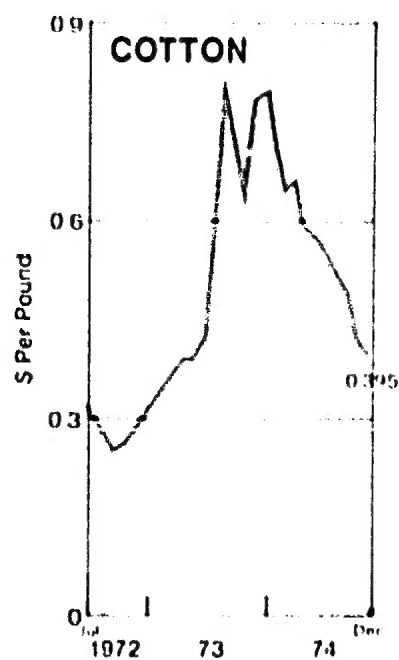
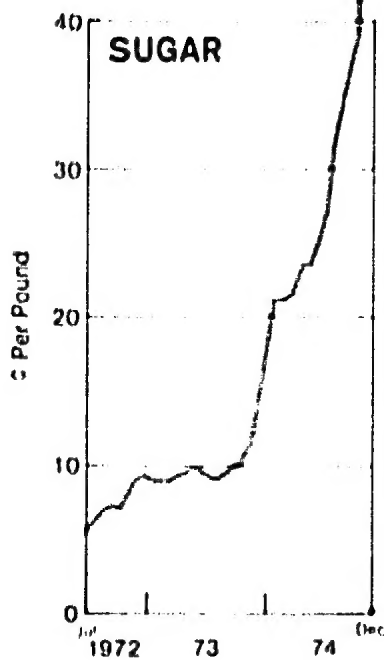
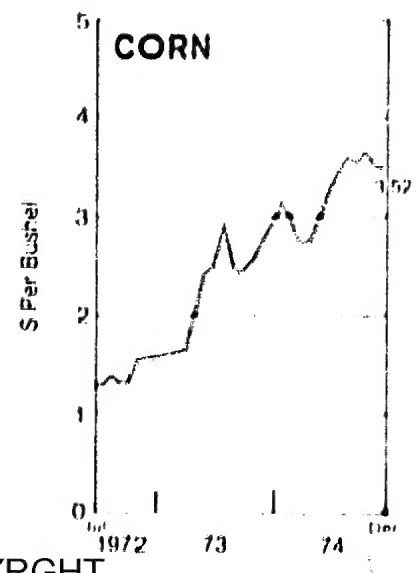
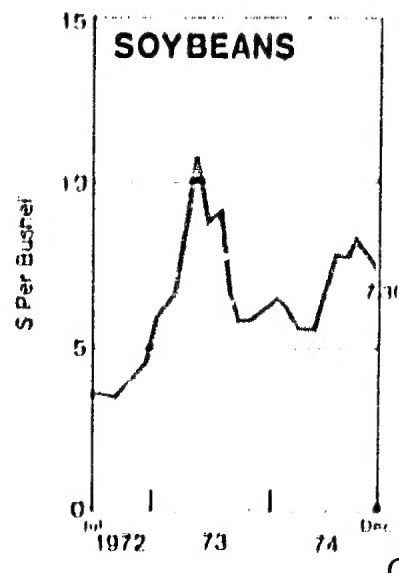
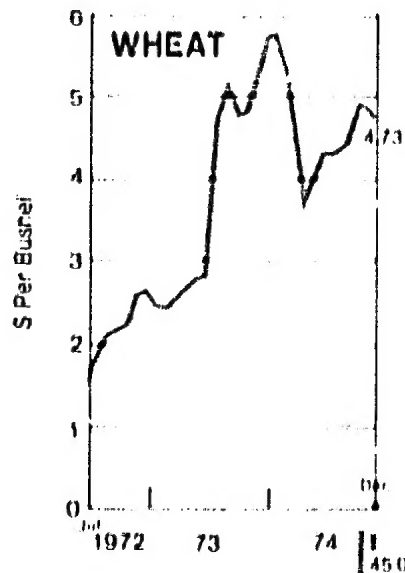
**Producers' price, covers most primary metals sold in the United States

¹Quoted on New York market

¹¹Composite price for Chicago, Philadelphia, and Pittsburgh

AGRICULTURAL PRICES

(Monthly Average Price)



* This is a compiled index by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3 year moving averages of imports into industrialized countries.

COMMODITIES

	Cash Prices			
	6 Jan	Week Ago	Nov 74 Average	Dec 73 Average
Wheat-Kansas City #2 Hard Winter (\$ per bushel)	4.51	4.58	4.88	5.73
Corn-Chicago #2 Yellow (\$ per bushel)	3.48	3.35	3.51	2.64
Soybeans-Chicago #1 Yellow (\$ per bushel)	7.06	6.79	7.67	5.95
Sugar-World Raw New York #11 (c per pound)	43.75	47.50	56.80	11.80
Cotton-Memphis 17/32 (\$ per pound)	0.3850	0.3735	0.4190	0.7840

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